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E.O. 12958: DECL: 01/17/2018
TAGS: EINV ECON KCOR EFIN TS
SUBJECT: FOR SALE: GULF INVESTORS GO A ON BUYING SPREE IN
TUNISIA

REF: A. 07 TUNIS 1433
¶B. 07 TUNIS 1073
¶C. 07 TUNIS 948
¶D. 07 TUNIS 791
¶E. 07 TUNIS 516
¶F. 06 TUNIS 2573
¶G. 06 TUNIS 629

Summary

¶1. (S) Despite what many domestic and foreign investors view as weaknesses in Tunisia,s investment climate, Gulf investors have made several sizable investments in recent months, with the full support of the GOT. The latest to be announced are a US $14 billion investment by Dubai Holding to build a gigantic tourist and commercial real estate complex (Tunis 1073) and a US $3 billion investment by Bahrain's Gulf Finance House to build a large financial center. A rough estimate of current and announced Gulf investment projects totals over US $30 billion, but the GOT has plans for over US $60 billion in mega projects over the next 15 years. The secrecy surrounding many of the projects and the close involvement of President Ben Ali have led many to believe that not everything has been above board. On balance, Gulf investment has been positive for Tunisia and will help keep real GDP growth up and create jobs -- both key GOT objectives. Even as Gulf investors have their eye on Tunisia, they have been vocal in noting the need for financial and legal reforms. End Summary.

The Projects

¶2. (U) The following list represents an overview of the most significant planned and actual Gulf investments in Tunisia. Land for all the real estate projects appears to have been GOT-owned and provided either free or for a symbolic one dinar, as in the case of Sama Dubai.

-- Tunis Financial Harbor: In December 2007, Bahrain's Gulf Finance House announced plans to invest US $3 billion to develop a financial harbor, which will house corporate financial facilities as well as residential real estate (and the requisite golf course).

-- Al Maabar Project: In November 2007, Emirati Al Maabar

announced plans to invest US $5.5 billion to develop a tourist and residential megaplex in Tunis.

-- Sports City: The Emirati Bukhatir Group will invest US $5 billion to develop a large sporting complex called Tunis Sports City (Ref F) in Berges du Lac, next to the US Embassy. Ground-breaking on the project was in late 2007.

-- South Lake Project: In July 2007, President Ben Ali signed off on a Sama Dubai (Dubai Holding Group) project to develop a US $14 billion tourist and commercial real estate complex (Refs B, F). The GOT estimates the project will create 90,000 new jobs in the economy. The land was sold to Sama Dubai for one dinar.

-- Skhira Oil Refinery: In May 2007, state-owned Qatar Petroleum signed a Memorandum of Understanding with the GOT to make a US $2 billion investment in the Skhira oil refinery (Ref D).

-- Tunisiana: In April 2007, state-owned Qatar Telecom purchased 51 percent of Kuwait's Wataniya, which owns a 50 percent stake in Tunisiana (Tunisia,s private mobile operator) (Ref E).

-- El Quossour (Les Palais) Tourism Project: In April 2006, Emirati EMAAR announced plans to invest US $1.9 billion to develop a tourism project in the coastal city of Hergla (Ref F).

-- Tunisie Telecom: In March 2006, a consortium of TECOM-Dubai Investment Group (Dubai Holding) was awarded the tender to purchase a 35 percent stake of Tunisie Telecom (Ref G) for US $2.25 billion.

Propping up Growth Rates

¶3. (C) One private economic consultant remarked that these Gulf mega projects are the only way to keep Tunisia's growth rate steady. With the rate of domestic investment at 12.5 (Ref A) percent, only half of that in Morocco, Tunisia must rely on foreign direct investment (FDI) to reach the economic growth rates targeted by its 11th Development Plan (Ref C). This contact also noted that the use of build-own-operate-transfer (BOOT) projects to fund the Enfidha airport and other large infrastructure projects reveal that the GOT does not have the resources to undertake the projects on their own. While the projected investments would certainly make Gulf investors the largest source of FDI in Tunisia, the money has yet to hit the Central Bank for almost all of the projects. However, as one consultant remarked, even if only a fraction of the projected investments take place, it will still be a boon to Tunisia's economy. Gulf investors are not newcomers to Tunisia and have long had investments in the tourism industry, but never on this scale. The expected predominance of Gulf FDI in Tunisia also significantly alters the economic landscape, with the European Union losing some of its clout as Tunisia's number one economic partner.

GOT Support

¶4. (S) Gulf investors have entered Tunisia with the full support of the Tunisian government. In November, Tunisia hosted the two-day Tunisia Economic Forum, which focused specifically on investment opportunities for Gulf investors in Tunisia. The event was sponsored jointly by the GOT and many major Tunisian companies and Gulf investors such as Karthago Group, Sama Dubai (Dubai Holding), Tunisie Telecom and the Kuwait Projects Company (KIPCO). During the forum,

the GOT announced plans to attract US $60 billion in mega projects over the next 15 years. GOT interest in encouraging large investments is so great that a new position was created within the Presidency to oversee the effort. Slim Tlatli, a GOT-regular often referred to as Mr. Mise-a-niveau for his role in spearheading an industrial upgrading program, was designated Senior Advisor to the President and Chairman of the Higher Committee for Major Projects. Tlatli is reported to have stated at the conference that he could get the paperwork done for a project within three weeks -- bypassing the normal channel for investments. (Note: Belhassen Trabelsi, President Ben Ali's brother-in-law and oft-cited poster child for the worst of local corruption, received a lifetime achievement award at the event and his Karthago Group was not only a major financial sponsor, but the conference was held in the Trabelsi-owned Karthago Palace Hotel. End Note.)

Reform Needed

¶5. (S) Notably, even though Gulf investors have been eager to invest, they have also noted the need for further reform. The Gulf investors present at the Tunisia Economic Forum highlighted many of the same areas for reform that the International Monetary Fund has targeted, such as the financial sector, greater openness to foreign investment in all sectors, and modernization of Tunisia's legal framework. Given the excess liquidity created by high oil prices, Gulf investors have been willing to overlook these weakness, but have also benefited from exceptions to Tunisia's investment code.

¶6. (S) Despite widespread rumors of corruption, one lawyer noted that the GOT will "always find a legal means to make these projects happen." Tunisia's Higher Council for Investment can grant exceptions to the investment code if a project satisfies one of three criteria: sizable capital, creation of employment, and/or transfer of technology. In the case of the Sama Dubai project, a new law was passed in the parliament and signed by the President in order to accommodate these exceptions. Although the exact terms are

not clear, many speculate that the law included exceptions to the number of expatriate workers (currently limited to four), to the required prior authorization to sell property, and perhaps even to designate the property a free trade zone, which would exempt Sama Dubai from onerous foreign exchange controls. Gulf investors are also believed to be major proponents of services liberalization, and more specifically franchises, as many of the large projects are tourist complexes that would benefit from the presence of familiar names.

Who Benefits?

¶7. (S) The size of the investments and secrecy surrounding many of the projects have created a strong sense that not everything has been above board. One contact described the machinations as a "secretive and confusing web" with "a small group of people benefiting from a well-established system." He complained that money is being shifted around between the same people with an understanding that if "you buy from me, I'll buy from you." He cited the nexus of Belhassen Trabelsi, President Ben Ali's brother-in-law, and the Dubai Investment Group (DIG). DIG purchased a 22 percent stake in Belhassen Trabelsi's Karthago Group, while Dubai Investment Group and its parent company Dubai Holding received GOT-authorization to develop the South Lake Project and won the tender for the Tunisie Telecom privatization.

¶8. (S) A lawyer who closely monitors investment law stated

that in each of these projects "there are intermediaries or facilitators who have an interest." Few of these projects have been subject to public tender and the terms of the contracts have been tightly held. The exact terms of the convention signed between the GOT and Sama Dubai have remained secret and were not released to a group of lawyers following a routine request for information. The lawyer remarked that "if something is not transparent there must be something they are hiding," though he noted that the change in law required for the project meant that the exact terms would ultimately come to light. Many business people lament that even if they were interested in investing, the spoils have already been divided. One contact complained that "the game has already been played and everyone knows the rules."

Comment

¶9. (S) With soaring world oil prices and signs of a slumping US economy, Tunisia has certainly benefited from excess liquidity in the Gulf even as Tunisians suffer at the pump. While the cash infusion is a boon for the Tunisian economy, it has allowed the GOT to take its time in undertaking further reform of its investment climate regime and also appears to have sustained, or even created, a system of back room deals. Even as Gulf investors have been investing huge sums, Tunisian investors have remained wary and complain about the preferential treatment received by Gulf companies. It is clear that the playing field is not level and that while some well-connected Tunisians may benefit, most Tunisian investors are losing out. With some newspaper headlines griping that the government has sold the country, it seems not everybody is smiling. (The November 2007 announcement that the small islands of Zembra and Zembretta are going to be developed for tourism by Chinese investors has only added fuel to the fire.)

¶10. (S) Even though the lack of transparency surrounding these projects represents a blemish on Tunisia's reputation, the size of the investments and weight of the Gulf investors may force changes in Tunisia's legal system that will ultimately benefit US investors. American investors are certainly not keen on the back room dealing associated with these new projects, but there are several issues where there is common ground. With Gulf investors eager to see a Starbucks in their hotel, Tunisia's historic resistance to franchises seems to be weakening. The current limit of four expatriate workers per company may also go by the wayside. Thus far, the GOT has made case-by-case exceptions to its investment code, but ultimately these exceptions may force changes in Tunisia's legal framework as the exception becomes

the rule. More than merely legal reform, Gulf investment will significantly alter Tunisia's economic landscape, with the EU losing some of its clout to the Gulf countries. The economic shift is dramatic; the political implications uncertain. End Comment.

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